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Performance Management in  
Workers' Compensation Systems

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## Performance Management in Workers' Compensation Systems

**I**nterest in performance measurement and performance management has expanded remarkably in the past 25 years. This interest has spawned many initiatives, both private and public. One of the most ubiquitous has been the "balanced scorecard," which developed out of the work of two professors at the Harvard Business School in the early 1990s, Robert Kaplan and David

(see Kaplan and Norton 2001).

While the balanced scorecard was finding application in private business, nonprofits, and local government entities, the federal government was conducting a national performance review under the leadership of Vice President Al Gore (1993). This gave a boost to legislation enacted under the title of the Government Performance and Results Act of 1993, or GPRA. GPRA is the latest in a series of government attempts at "performance management," including the Planning-Programming-Budgeting System (PPBS) of 1965, Management by Objectives of 1973, and Zero-Base Budgeting of 1977 (see U.S. Government Accounting Office [USGAO] 1997).

However, GPRA differs from those earlier federal efforts in that it also imposes a planning and evaluation process designed to measure program effectiveness and influence budgeting decisions. Five-year strategic plans are required from all federal agencies (with revision every three years), together with an annual performance plan that has credible outcome-based goals. In addition, these "good intentions" are being monitored by the Office of Management and Budget (OMB) Program Assessment Rating Tool (PART), which is being applied across all federal government agencies and

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Norton. It was based on the fundamental concept that since there are (or should be) multiple organizational objectives, there should also be multiple dimensions of performance measurement (Kaplan and Norton 1992). Kaplan and Norton urged that the financial perspective be complemented by a customer perspective, an internal process perspective, and an organizational learning and growth perspective. Only then could performance measurement fully serve the strategic objectives of the modern enterprise

programs on a five-year cycle. In fact, the Office of Management and Budget conducted PART evaluations on 234 federal programs during fiscal year 2002–2003 and planned to complete 400 by the end of fiscal year 2004.

PART rates programs as “effective, moderately effective, adequate, results not demonstrated, or ineffective” based on four criteria. Twenty percent of the evaluation is based on management, 20 percent on program purpose and design, 10 percent on planning, and 50 percent on program results (USGAO 2004). While it is too early to judge the ultimate success of PART or GPRA, they certainly demonstrate growing interest in program effectiveness and program evaluation in the federal government and elsewhere (see USGAO 2004 for a critical view). No less an authority than Richard P.

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Nathan, in his recent presidential address to the Association for Public Policy Analysis and Management, suggested “Let’s not part with PART” as an appropriate slogan for the 2004 election season.<sup>1</sup>

### “State of the Art” Performance Measurement in Workers’ Compensation Systems

Workers’ compensation systems have not been perceived as among the leaders in developing performance measurement tools. There are, however, a number of impressive performance measurement systems currently in place throughout the workers’ compensation world. These performance measurement systems are specifically designed to support the management of the workers’ compensation function. They include targets or goals, with an accountability

standard that defines acceptable levels of performance. For example, examine the International Association of Industrial Accident Boards and Commission Information Product Award winner for 2003 in the “program improvement category.”

### Nova Scotia Workers’ Compensation Board (WCB)

The Nova Scotia WCB Performance Measurement and Management System (PMMS) emphasizes empowering WCB employees by giving them the necessary information to align their personal work goals with organizational objectives. This is illustrated in Figure 1, which shows the conceptual model underlying the PMMS. It indicates that the goals of the organization are defined from the top down, but performance accumulates from the bottom up, as individual performances add up to team performance, which, in turn, sums to unit and then department performance. All departments taken together constitute corporate outcomes.

The PMMS system uses specific

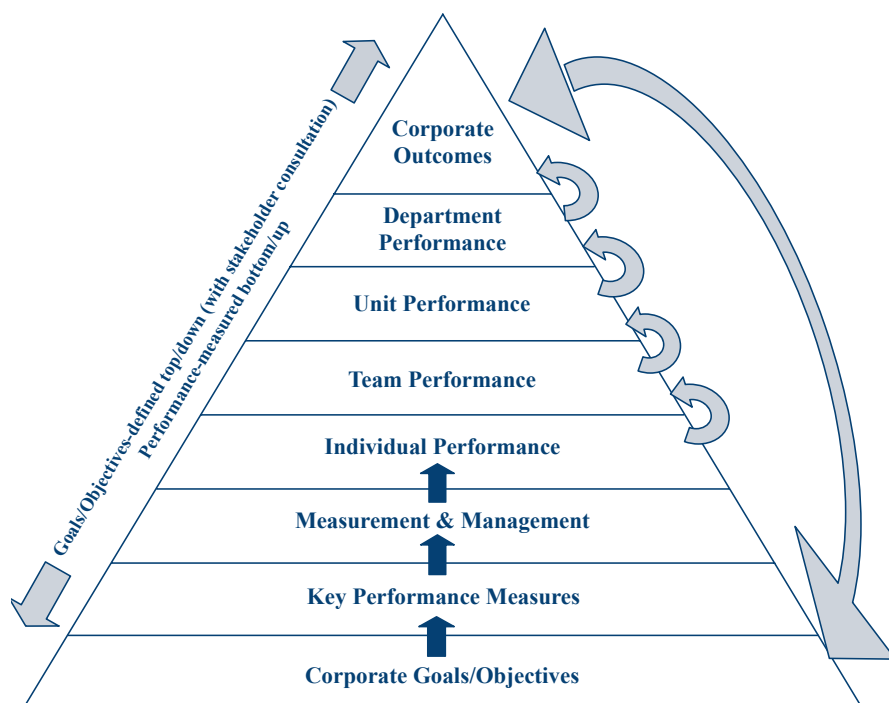
performance bands to define expected performance norms based on past experience. These “dashboard indicators” define adequate (green), marginal (yellow), and unacceptable (red) performance for each performance measure and at each organizational level. In this way, individuals or teams with performance problems can be identified and targeted for additional training or assistance.

The primary PMMS performance indicators are

- timeliness,
- return-to-work outcomes,
- claim durations,
- claim costs,
- staff availability, and
- stakeholder satisfaction.

The system is a proprietary, Web-based application designed to assign each user the necessary level of access, as well as the appropriate performance level indicators. Thus, individual caseworkers may access their own monthly performance results, as well as their team, unit, and department performance results, but they cannot access another

**Figure 1 Performance Model for Nova Scotia PMMS**



SOURCE: Nova Scotia WCB.

individual's results. Similarly, team managers have access to results for their departments, units, and teams, plus the individuals in the team, but not for other teams or individuals. There are seven distinct levels of security access built into this system.

For each performance area, the software permits "drill-thru" to more refined or specific measures. For example, the corporate timeliness of payment measure allows drill-thru to the five different client service units, which are organized geographically. Data (and dashboard indicators) are displayed for the current month and the previous month, as well as the threshold levels for green, yellow, and red indicators. Human contact for more information is also listed. Individual worker-level data are displayed for the last eight measurement periods (typically months). This permits

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easy identification of performance trends and enables quick intervention for remedial efforts or workload rebalancing.

The PMMS system also produces management information reports that support day-to-day operational management. For instance, there is a "Medium High Caseload Report," which identifies units, teams, or individuals with relatively high caseloads. The report assigns each claim a status and weight based on specific activities happening with the claim. The system is designed to represent the amount of effort that would typically be required for a case of that status. Management can then work with this list to maintain more equitable file distribution and resultant work burden.

The WCB of Nova Scotia reports that employee users indicate that the software tool is "intuitive and relevant to their work." Eighty-five percent of staff surveyed in 2002 indicated that they understood their personal performance

targets. The board of directors has also expressed a high level of satisfaction with the information they receive monthly from PMMS. The bottom line is that timeliness to first payment improved from 60.5 percent in May 2002 to 81.5 percent in May 2003.

### **Office of Workers' Compensation Programs, U.S. Department of Labor**

The Office of Workers' Compensation Programs (OWCP) in the U.S.

Department of Labor has developed what may be the best single outcome measure for a workers' compensation agency. Lost production days is the ultimate performance measure for a workers' compensation agency because it simultaneously represents both the incidence of claims and their severity or duration. A reduction in lost production days is clearly a good thing for both workers and their agencies. In response to the pressures generated by GPRA, OWCP decided to measure production days lost due to workers' compensation claims in the federal employing agencies, and to evaluate OWCP performance in terms of reducing average lost production days.<sup>2</sup>

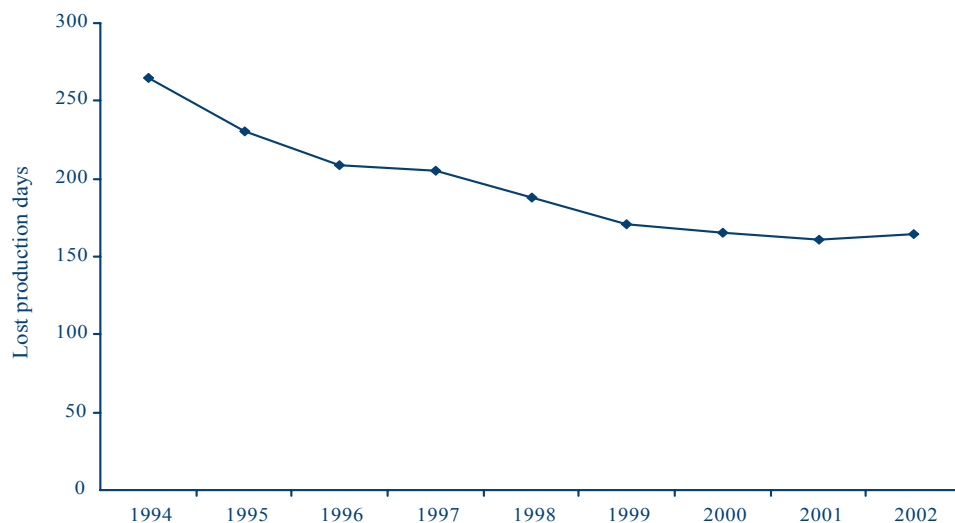
This system was originally implemented as a way to track

performance under the Quality Case Management program, a nurse-based case management system designed to return long-term Federal Employees Compensation Act (FECA) claimants to employment. Using this measurement to manage performance over time appears to have been very effective as the average duration reduction has been nearly 20 percent over an eight-year period. This is confirmed by the fact that the lost production days measure was extended to the entire FECA program in fiscal year 2001. It has subsequently been adopted under the President's Safety, Health and Return-to-Employment initiative for all federal employees for 2004–2006. OWCP reports results on this and other performance measures by individual agency on their Web site (<http://www.dol-esa.gov/share/>).

### **Conclusions**

Performance measurement has clearly gained a (tenuous) foothold within some workers' compensation systems in North America. One gets the impression that the "state of the art" is better in Canada than in the United States. But perhaps that impression results from the more competitive workers' compensation environment in the United States, which

**Figure 2 Average Lost Production Days in Quality Case Management Program by Office of Workers' Compensation Programs, U.S. Department of Labor**



SOURCE: U.S. Department of Labor (2004b).

leads insurers to think of performance measurement systems as a part of their competitive advantage.

On the other hand, there are also limits to the role of performance measurement in workers' compensation systems. First must come the dictum that "what gets measured gets done." However, the obverse question is, What is not measured? It seems clear that concentration on achieving one goal in complex social systems like these will likely come at the expense of alternative goals. It may not be evident immediately, but the time and energy that go into achieving the stated goal will be diverted from some other activity with an unstated or unmeasured goal. This may or may not be a problem, but the issue should be carefully examined to make sure that the net result is not a surprise (see Meyer 2002).

The other question is, What happens when things go bad? The savvy executive knows that is the time to change the performance measurement system! On the other hand, corporate and public governance systems must develop the capability to deal with this issue. Performance goals should be potentially achievable, or they will not motivate better performance. But this means goals must reflect the underlying reality, and that reality may change rapidly. So performance goals must also be flexible.

Finally, observers ask if performance measurement is just "the flavor of the month." This seems unlikely, since it is part of a much broader trend in government, education, and private enterprise. But ultimately performance measurement must be adopted by stakeholders as an important part of system management if it is to truly reach its ultimate potential. It is still very early in the history of performance measurement in workers' compensation; it remains to be seen how much effective performance management it will lead to. Researchers and policy analysts look forward to watching this process unfold over the next several years.

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## Notes

1. See Nathan's remarks at [http://www.appam.org/conferences/fall/atlanta2004/APPAM\\_Presidential\\_Speech\\_04.pdf](http://www.appam.org/conferences/fall/atlanta2004/APPAM_Presidential_Speech_04.pdf).

2. It should be noted that OWCP maintains a number of other performance measures that are not covered here. See U.S. Department of Labor (2004a) for details.

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